

CHAPTER II

WHEN TO SELECT

SOMETIMES the choice of time is not possible or is inconvenient : funds must be rendered productive with promptitude whatever the state of the money market may chance to be. If prices are low no difficulty arises ; if they be high it may be quite inadvisable to purchase, since the value may be really exceptional, and a loss consequently ensue on a subsequent sale or on redemption. Hence, in the latter case, the proper course would be to make a temporary deposit of the money with a solid bank or discount house, pending the advent of a more propitious time for definite investment.

The prices of securities rise when money is cheap (that is, when loans can be negotiated in the ordinary way at a small cost in interest), and at those periods accordingly the return allowed by banks upon deposits will be low. For when money is "cheap," as it is termed, a superior return can be secured by investing in securities, than by the customary modes of advances, until the rise in the values of stocks and shares (induced by the increased demand for them at such a time) attains a point where this inequality of "yield" ceases to exist: for, of course, the higher the price paid for a stock which bears a fixed rate of interest the more reduced becomes the percentage of income derived. Assume that a person can borrow £100 at 2£ per cent, and can purchase a stock bearing 4 per cent interest at par, that is, for £100. Assume, further, that the lender of the money requires (for safety) a margin of 10 per cent upon his advance. The borrower then, for the purpose of providing this margin, buys £110 of the selected stock (thus investing £10 only of his own money); on the £100 he pays £2 10s., while the investment yields him £4 8,9.; so